

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

CANEY CREEK WATER AND SEWER)	
DISTRICT)	
_____)	CASE NO. 97-287
)	
ALLEGED VIOLATIONS OF)	
COMMISSION STATUTES AND)	
REGULATIONS)	

O R D E R

Caney Creek Water and Sewer District ("Caney Creek") is a water district created pursuant to Chapter 74 of the Kentucky Revised Statutes which owns, controls, and operates facilities used for or in connection with the treatment and distribution of water to the public for compensation in Knott County, Kentucky. Pursuant to KRS 74.407, Caney Creek also owns, controls, and operates facilities used for or in connection with the treatment of sewage for the public for compensation in and around Pippa Passes, Knott County, Kentucky. As such, Caney Creek is a utility subject to the jurisdiction of the Kentucky Public Service Commission ("Commission") pursuant to KRS 278.010(3)(d) and (f).

Commission Staff conducted an audit of Caney Creek's financial statements for the year ending December 31, 1994. During the audit, Commission Staff became aware of several matters that were opportunities for strengthening financial reporting and improving compliance with statutes and regulations. The problem areas identified were in Caney Creek's accounting and record keeping procedures, its compliance with statutes and

regulations, and its tariff and rates charged. A copy of Commission Staff's Report of Audit is attached as Appendix A.

In the area of accounting and record keeping, Commission Staff noted that Caney Creek failed to maintain sufficient plant records, failed to maintain general records for 1988-1992, failed to maintain the accounts receivable records properly, overpaid taxes to the Knott County Board of Education, failed to maintain cash disbursement records properly, had excessive billing adjustments, and had excessive delinquent accounts.

In the area of compliance with statutes and regulations, Commission Staff noted that Caney Creek failed to have a written procedure for monitoring its customers' usage contrary to 807 KAR 5:006, Section 10(3); failed to provide its rate schedule to its customers once a year contrary to 807 KAR 5:006, Section 6(1); failed to have a commissioner serve as treasurer; failed to have a secretary, and failed to have each commissioner execute a bond contrary to KRS 74.020(5) and 74.050; and failed to distinctly indicate whether a bill was estimated or calculated contrary to 807 KAR 5:006, Section 6(1).

Commission Staff found that Caney Creek charged rates which were not contained in its tariff in apparent violation of KRS 278.160, that its water tariff contained a rate for sewage service different than the rates contained in its sewer tariff, and that it failed to have a customer deposit policy in violation of 807 KAR 5:006, Section 7(7).

Caney Creek responded to the financial audit on July 8, 1996. [This response is attached as Appendix B.] In the response, Caney Creek identified the approaches it would take to rectify the problems identified by Commission Staff. It intended to solve many of the problems by filing a revised tariff for the Commission's approval. The Commission

approved tariff revisions for both the water and sewer divisions of Caney Creek on June 3, 1997.

While many of Caney Creek's problems appear to have been rectified since the audit was performed, some by the filing of the revised tariff, the fact remains that during the audit year Caney Creek charged rates which were not a part of its filed tariff. KRS 278.160 states that no utility shall charge, demand, collect, or receive from any person a greater or less compensation for any service rendered or to be rendered than that prescribed in its filed schedules. During the audit year, Caney Creek charged an \$8.00 reconnection fee, a \$30.00 customer deposit, a \$12.80 water and sewer flat rate, and a \$10.25 sewer flat rate in violation of KRS 278.160, as none of these charges were contained in its filed tariff. Commission records indicate that untariffed flat rate revenues billed by Caney Creek in 1994 totaled \$1,533.85, while the total amount of untariffed charges collected by Caney Creek that year was \$2,019.85.

By charging the \$12.80 flat rate to three customers for water and sewer, and the \$10.25 flat rate to certain customers for sewer alone, Caney Creek appears to have violated KRS 278.170 as well as KRS 278.160. According to KRS 278.170(1),

No utility shall, as to rates or service, give any unreasonable preference or advantage to any person . . . or establish or maintain any unreasonable difference between localities or between classes for doing a like and contemporaneous service under the same or substantially the same conditions.

Furthermore, free or reduced rate service may only be given to the utility's officers, agents, or employees, and then only after Commission approval. KRS 278.170(2). Caney Creek apparently did not have such approval.

Pursuant to KRS 278.990(1),

Any officer, agent, or employee of a utility, as defined in KRS 278.010, and any other person who willfully violates any of the provisions of this chapter or any regulation promulgated pursuant to this chapter, or fails to obey any order of the commission from which all rights of appeal have been exhausted, or who procures, aids, or abets a violation by any utility, shall be subject to either a civil penalty to be assessed by the commission not to exceed two thousand five hundred dollars (\$2,500) for each offense or a criminal penalty of imprisonment for not more than six (6) months, or both. If any utility willfully violates any of the provisions of this chapter or any regulation promulgated pursuant to this chapter, or does any act therein prohibited, or fails to perform any duty imposed upon it under those sections for which no penalty has been provided by law, or fails to obey any order of the commission from which all rights of appeal have been exhausted, the utility shall be subject to a civil penalty to be assessed by the commission for each offense not less than twenty-five dollars (\$25.00) nor more than two thousand five hundred dollars (\$2,500). Each act, omission, or failure by an officer, agent, or other person acting for or employed by a utility and acting within the scope of his employment shall be deemed to be the act, omission, or failure of the utility.

As a prima facie showing had been made that Caney Creek acted in violation of KRS 278.160 and KRS 278.170, the Commission, on its own motion, HEREBY ORDERS that:

1. Caney Creek shall appear before the Commission on August 12, 1997, at 10:00 a.m., Eastern Daylight Time, in Hearing Room 1 of the Commission's offices at 730 Schenkel Lane, Frankfort, Kentucky, for the purpose of presenting evidence concerning its alleged violations of KRS 278.160 and KRS 278.170.
2. Caney Creek shall submit to the Commission, within 20 days of the date of this Order, a written response to the allegations contained herein.

3. Any motion requesting an informal conference with Commission Staff to consider the simplification of issues or any other matters which may aid in the handling or disposition of this proceeding shall be filed with the Commission no later than 20 days from the date of this Order.

Done at Frankfort, Kentucky, this 30th day of June, 1997.

PUBLIC SERVICE COMMISSION

Linda K Breathitt
Chairman

Earl J. Klen
Vice Chairman

B. J. Helton
Commissioner

ATTEST:

Don Mills
Executive Director

APPENDIX A

AN APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 97-287 DATED 6/30/97

CANEY CREEK WATER DISTRICT
PIPPA PASSES, KENTUCKY

REPORT OF AUDIT
YEAR ENDED DECEMBER 31, 1994

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Balance Sheet	2
Statement of Operations	3
Statement of Retained Earnings	5
Statement of Cash Flows	6
Notes to Financial Statements	7
INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION	11
ADDITIONAL INFORMATION	
Water Division Statement of Operations	12
Sewer Division Statement of Operations	13
Financial Allocations	15
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	16
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	18



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

INDEPENDENT AUDITOR'S REPORT

To The Kentucky Public Service Commission

We have audited the accompanying balance sheet of Caney Creek Water District as of December 31, 1994, and the related statements of operations, retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the district's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Caney Creek Water District as of December 31, 1994, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated June 4, 1996, on our consideration of Caney Creek Water District's internal control structure and a report dated June 4, 1996, on its compliance with laws and regulations.

Division of Financial Analysis

June 4, 1996

CANEE CREEK WATER DISTRICT
BALANCE SHEET
December 31, 1994

ASSETS AND OTHER DEBITS

UTILITY PLANT:		
101	Utility Plant in Service	\$1,350,490.77
105	Construction Work in Progress	3,304.63
108/110	Accumulated Depreciation and Amortization of Utility Plant in Service	<u>(770,934.92)</u>
	Net Utility Plant	<u>582,860.48</u>
CURRENT AND ACCRUED ASSETS:		
131	Cash	83,788.20
132	Special Deposits	9,179.25
141/142	Customer Accounts Receivable	6,496.97
143/144	Accumulated Provision for Uncollectible Accounts	(1,399.28)
174/170	Miscellaneous Current and Accrued Assets	<u>1,562.00</u>
	Total Current and Accrued Assets	<u>99,627.14</u>
	TOTAL ASSETS AND OTHER DEBITS	<u>\$ 682,487.62</u>

EQUITY CAPITAL AND LIABILITIES

EQUITY CAPITAL:		
215/216	Retained Earnings	<u>\$ (595,592.66)</u>
LONG-TERM DEBT:		
224	Long-Term Debt	<u>67,078.56</u>
CURRENT AND ACCRUED LIABILITIES:		
231/232	Accounts Payable	759.65
235	Customer Deposits	1,143.00
236	Accrued Taxes	219.24
242	Miscellaneous Current and Accrued Liabilities	<u>4,833.62</u>
	Total Current and Accrued Liabilities	<u>6,955.51</u>
CONTRIBUTIONS IN AID OF CONSTRUCTION:		
271	Contributions in Aid of Construction	<u>1,204,046.21</u>
	TOTAL EQUITY CAPITAL AND LIABILITIES	<u>\$ 682,487.62</u>

See notes to financial statements.

CANEY CREEK WATER DISTRICT
STATEMENT OF OPERATIONS
For the Year Ended December 31, 1994

OPERATING REVENUES:

OPERATING SERVICE REVENUES:

460	Unmetered Water Revenue	\$	301.58
461	Metered Water Revenue		49,509.26
521	Flat Rate Revenues		1,232.27
522	Measured Revenues		<u>23,871.76</u>

Total Operating Service Revenues		<u>74,914.87</u>
----------------------------------	--	------------------

OTHER OPERATING REVENUE:

474	Other Water Revenues		349.74
532	Customer Forfeited Discounts		159.30
536	Miscellaneous Operating Revenues		<u>48.00</u>

Total Other Operating Revenues		<u>557.04</u>
--------------------------------	--	---------------

TOTAL OPERATING REVENUES		<u>75,471.91</u>
--------------------------	--	------------------

OPERATING EXPENSES:

OPERATION AND MAINTENANCE EXPENSES:

601	Salaries and Wages - Employees		12,400.94
604/926	Employee Pensions and Benefits		991.44
615	Purchased Power		6,441.43
618/704	Chemicals		1,435.40
620	Materials and Supplies		1,025.14
630	Contractual Services		5,930.51
650/929	Transportation Expense		1,246.14
655/924	Insurance		2,838.30
670	Bad Debt Expense		1,075.63
675/930	Miscellaneous Expense		(124.75)
701	Labor and Expenses		4,801.92
703	Fuel and Power Purchased for Pumping and Treatment		5,221.33
710	Supervision and Engineering		1,542.13
712	Maintenance of Collection Sewer System		31.37
714	Maintenance of Treatment and Disposal Plant		246.19
715	Maintenance of Other Plant Facilities		316.19
902	Meter Reading Expenses and Flat Rate Inspections		744.60
904	Uncollectible Accounts		579.19
921	Office Supplies and Other Expenses		174.85
923	Outside Services Employed		<u>2,694.00</u>

Total Operation and Maintenance Expenses		<u>49,611.95</u>
--	--	------------------

See notes to financial statements.

CANEE CREEK WATER DISTRICT
STATEMENT OF OPERATIONS
For the Year Ended December 31, 1994

403	Depreciation Expense	59,020.25
408	Taxes Other Than Income Taxes	<u>1,508.92</u>
	Total Depreciation and Taxes	<u>60,529.17</u>
TOTAL OPERATING EXPENSES		<u>110,141.12</u>
NET OPERATING LOSS		<u>(34,669.21)</u>
OTHER INCOME/(DEDUCTIONS):		
419	Interest and Dividend Income	2,610.13
426	Miscellaneous Income/(Deduction)	(722.47)
427	Interest Expense	<u>(3,133.11)</u>
	Total Other Income/(Deductions)	<u>(1,245.45)</u>
NET LOSS		<u>\$ (35,914.66)</u>

See notes to financial statements.

CANEE CREEK WATER DISTRICT
STATEMENT OF UNAPPROPRIATED RETAINED EARNINGS
For the Year Ended December 31, 1994

215/216 UNAPPROPRIATED RETAINED EARNINGS (DEFICIT)

Retained Earnings at beginning of year:

As previously reported	\$ (557,430.67)
Correction of errors	<u>(2,247.33)</u>
Adjusted Balance of Retained Earnings (Deficit) at beginning of year	(559,678.00)
Balance transferred from operations	<u>(35,914.66)</u>
Retained Earnings (Deficit) at end of year	<u>\$ (595,592.66)</u>

See notes to financial statements.

CANEY CREEK WATER DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 1994

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	\$ (35,914.66)
Noncash items included in operating income:	
Depreciation	59,020.25
Changes in assets and liabilities:	
Decrease in net accounts receivable	2,269.54
Decrease in prepayments	6.75
Increase in accounts payable	80.82
Decrease in other accrued expenses	<u>(558.33)</u>
Net cash provided by operating activities	<u>24,904.37</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Cash used to purchase utility plant	<u>(4,334.63)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Payments on long-term debt	(4,017.89)
Customer contributions	<u>1,800.00</u>
Net cash used by financing activities	<u>(2,217.89)</u>
NET INCREASE IN CASH	18,351.85
Cash at beginning of year	<u>74,615.60</u>
CASH AT END OF YEAR	<u>\$ 92,967.45</u>
SUPPLEMENTAL DISCLOSURES:	
Interest paid	<u>\$ 3,133.11</u>

See notes to financial statements.

CANEY CREEK WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 1994

Caney Creek Water District is a water and sewer utility which provides service to residential customers in Knott County, Kentucky. The district was created on October 18, 1965, by the Knott County Fiscal Court under the provisions of Chapter 74 of the Kentucky Revised Statutes ("KRS").

NOTE 1: Significant Accounting Policies

Regulatory Requirements. The district is subject to the regulatory authority of the Kentucky Public Service Commission ("PSC") pursuant to KRS 278.040. The financial statements at December 31, 1994 are reported in accordance with the Uniform System of Accounts for Class C Water Districts and Associations and the Uniform System of Accounts for Sewer Utilities ("USoA"), Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation," and other PSC prescribed policies and regulations.

Basis of Accounting. The accrual basis of accounting is used for financial statement reporting purposes.

Utility Plant. Utility plant is stated at original cost. The cost of repairs and maintenance is charged to the proper expense account as incurred. Property replacements are capitalized and retirements are charged to the proper plant account and depreciation provision.

Depreciation. Depreciation is applied on the straight-line method over the estimated useful life of the asset and is recognized in accordance with Statement of Financial Accounting Standards No. 93, "Recognition of Depreciation by Not-for Profit Organizations."

Customer Accounts Receivable. The district uses an allowance method to account for uncollectible accounts. At December 31, 1994, the balance in the reserve account was \$1,399.28 which represents receivables accrued in that period for which collection is improbable.

Income Recognition. Income from sales of water and sewer service is recognized in the month the services are provided. All customers are billed on a monthly basis.

Income Tax Status. The district was formed as a nonprofit organization. The district is exempt from federal and state income taxes. Accordingly, the financial statements include no provision for income taxes.

CANEE CREEK WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 1994

NOTE 2: Utility Plant in Service

Utility plant in service is summarized below by major categories:

Water Plant:

Land and Land Rights	\$ 392.30
Structures and Improvements	127,898.32
Wells and Springs	122,271.99
Pumping Equipment	8,901.30
Water Treatment Equipment	345,946.80
Distribution Reservoirs and Standpipes	90,321.66
Transmission and Distribution Mains	231,107.21
Other Tangible Plant	<u>694.32</u>

Total Water Plant	<u>927,533.90</u>
-------------------	-------------------

Sewer Plant:

Land and Land Rights	392.30
Structures and Improvements	39,285.11
Collection Sewers Force	155,228.68
Pumping Equipment Electric	11,060.67
Treatment and Disposal Equipment	216,295.79
Other Tangible Property	<u>694.32</u>

Total Sewer Plant	<u>422,956.87</u>
-------------------	-------------------

Utility Plant in Service	<u>\$1,350,490.77</u>
--------------------------	-----------------------

The stated amounts do not include a 1994 water main extension to a personal care facility. Knott County constructed this extension which was funded by a federal grant. Ownership of the line will transfer to Caney Creek Water District as soon as the construction grant is closed.

NOTE 3: Long-term Debt/Bonds

In 1982 the district issued Farmers Home Administration Water and Sewer Revenue Bonds in the aggregate amount of \$120,000 that carry an annual interest rate of 4 1/8% and mature on January 1, of each year. Amounts to be retired from December 31, 1994, through the year 2000 are as follows:

CANEY CREEK WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 1994

NOTE 3: Long-term Debt/Bonds (Continued)

Year	Amount Maturing January 1
1996	\$ 4,833.62
1997	5,033.01
1998	5,240.62
1999	5,456.80
2000	5,681.89
Total Bonds Outstanding at December 31, 1994	\$ 71,912.18
Less: Current Maturities	<u>(4,833.62)</u>
Noncurrent Bonds Outstanding at December 31, 1994	<u>\$ 67,078.56</u>

✓ NOTE 4: Bond Funding Requirements

The bond resolution was not available so the specific funding requirements are not known.

NOTE 5: Prior Period Adjustments

Certain errors resulting in overstatements of some accounts and understatements in other accounts at December 31, 1993, were discovered during the current year. Accordingly, adjustments were made to adjust previously recorded retained earnings.

Prior period adjustments consist of the following:

Allowance for Doubtful Accounts- Understatement	\$ (1,312.33)
Accumulated Depreciation-Understatement	<u>(935.00)</u>
Retained Earnings Overstatement at 12/31/93	<u>\$ (2,247.33)</u>

NOTE 6: Contributions in Aid of Construction ("CIAC")

The balance in this account consists of money, services or property received by the district from any person or governmental agency without cost to the district, which represents an addition or transfer to the capital of the utility and which is used to offset the acquisition, improvement or construction costs of the utility's property. At December 31, 1994, the balance of CIAC was \$1,202,246.20. The increase in this account during 1994 totaled \$1,800.00.

CANEY CREEK WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 1994

NOTE 7: Commitments

The bonds referred to in Note 3 are secured by a statutory mortgage lien against the system.

✓ NOTE 8: Economic Dependency

The district receives approximately 75 percent of its water and sewer revenue from Alice Lloyd College accounts.



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

INDEPENDENT AUDITOR'S REPORT
ON ADDITIONAL INFORMATION

To the Kentucky Public Service Commission

Our report on our audit of the basic financial statements of Caney Creek Water District for 1994 appears on page 1. That audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying information shown on pages 12 through 15 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Division of Financial Analysis

June 4, 1996

CANEY CREEK WATER DISTRICT
WATER DIVISION
STATEMENT OF OPERATIONS
For the Year Ended December 31, 1994

OPERATING REVENUES:		
OPERATING SERVICE REVENUES:		
460	Unmetered Water Revenue	\$ 301.58
461	Metered Water Revenue	<u>49,509.26</u>
	Total Operating Service Revenues	<u>49,810.84</u>
OTHER OPERATING REVENUE:		
474	Other Water Revenues	<u>349.74</u>
	TOTAL OPERATING REVENUES	<u>50,160.58</u>
OPERATING EXPENSES:		
OPERATION AND MAINTENANCE EXPENSES:		
601	Salaries and Wages - Employees	12,400.94
604	Employee Pensions and Benefits	695.03
615	Purchased Power	6,441.43
618	Chemicals	1,280.00
620	Materials and Supplies	1,025.14
630	Contractual Services	5,930.51
650	Transportation Expense	872.32
655	Insurance	2,137.06
670	Bad Debt Expense	1,075.63
675	Miscellaneous Expense	<u>355.78</u>
	Total Operation and Maintenance Expenses	<u>32,213.84</u>
403	Depreciation Expense	40,723.97
408	Taxes Other Than Income Taxes	<u>1,030.38</u>
	Total Depreciation and Taxes	<u>41,754.35</u>
	TOTAL OPERATING EXPENSES	<u>73,968.19</u>
	NET OPERATING LOSS	<u>(23,807.61)</u>
OTHER INCOME/ (DEDUCTIONS):		
419	Interest and Dividend Income	1,305.06
427	Interest Expense	<u>(1,253.84)</u>
	Total Other Income/ (Deductions)	<u>51.22</u>
	NET LOSS	<u>\$ (23,756.39)</u>

See notes to financial statements.

CANEY CREEK WATER DISTRICT
SEWER DIVISION
STATEMENT OF OPERATIONS
For the Year Ended December 31, 1994

OPERATING REVENUES:		
OPERATING SERVICE REVENUES:		
521	Flat Rate Revenues	\$ 1,232.27
522	Measured Revenues	<u>23,871.76</u>
	Total Operating Service Revenues	<u>25,104.03</u>
OTHER OPERATING REVENUE:		
532	Customer Forfeited Discounts	159.30
536	Miscellaneous Operating Revenues	<u>48.00</u>
	Total Other Operating Revenues	<u>207.30</u>
	TOTAL OPERATING REVENUES	<u>25,311.33</u>
OPERATING EXPENSES:		
OPERATION AND MAINTENANCE EXPENSES:		
701	Labor and Expenses	4,801.92
703	Fuel and Power Purchased for Pumping and Treatment	5,221.33
704	Chemicals	155.40
710	Supervision and Engineering	1,542.13
712	Maintenance of Collection Sewer System	31.37
714	Maintenance of Treatment and Disposal Plant	246.19
715	Maintenance of Other Plant Facilities	316.19
902	Meter Reading Expenses and Flat Rate Inspections	744.60
904	Uncollectible Accounts	579.19
921	Office Supplies and Other Expenses	174.85
923	Outside Services Employed	2,694.00
924	Insurance	701.24
926	Employee Pensions and Benefits	296.41
929	Transportation Expense	373.82
930	Miscellaneous Expense	<u>(480.53)</u>
	Total Operation and Maintenance Expenses	<u>17,398.11</u>
403	Depreciation Expense	18,296.28
408	Taxes Other Than Income Taxes	<u>478.54</u>
	Total Depreciation and Taxes	<u>18,774.82</u>
	TOTAL OPERATING EXPENSES	<u>36,172.93</u>

See notes to financial statements.

CANEE CREEK WATER DISTRICT
SEWER DIVISION
STATEMENT OF OPERATIONS
For the Year Ended December 31, 1994

NET OPERATING INCOME		<u>(10,861.60)</u>
OTHER INCOME/(DEDUCTIONS):		
419	Interest and Dividend Income	1,305.07
426	Miscellaneous Income/(Deduction)	(722.47)
427	Interest Expense	<u>(1,879.27)</u>
	Total Other Income/(Deductions)	<u>(1,296.67)</u>
NET LOSS		<u>\$ (12,158.27)</u>

See notes to financial statements.

CANEY CREEK WATER DISTRICT
FINANCIAL ALLOCATIONS
For the Year Ended December 31, 1994

Service revenues were assigned directly to water and sewer operations while other operating and nonoperating revenues were allocated 50 percent to water and 50 percent to sewer operations where not directly assignable.

After an informal review of employee duties, salaries and wages and related expenses such as employee pensions and benefits, workers compensation insurance, payroll taxes, and transportation have been allocated 70 percent water and 30 percent sewer.

Administrative and general expenses relating to telephone, office supplies, Public Service Commission assessment, encroachment bonds, and accounting contractual services have been allocated 50 percent to water and 50 percent to sewer operations after considering the nature and use of the items listed.

General liability insurance is allocated 85 percent to water and 15 percent to sewer operations as no other means of allocation could be readily determined.

Allocation of bad debts is based on the percentage of service revenues assigned to each division resulting in a 65 percent water and 35 percent sewer allocation.

Depreciation expense is assigned to each division based on audited utility plant in service. This method results in a 69 percent water and 31 percent sewer allocation.

Allocation of interest expense is based on the original construction costs of each division resulting in a 40 percent water and 60 percent sewer allocation.

All other expenses were directly assignable.



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE
BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Kentucky Public Service Commission

We have audited the financial statements of Caney Creek Water District as of and for the year ended December 31, 1994 and have issued our report thereon dated June 4, 1996.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of Caney Creek Water District is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the basic financial statements of Caney Creek Water District, for the year ended December 31, 1994, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accounts. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the management of Caney Creek Water District in a separate letter dated June 4, 1996.

This report is intended for the information of management and the Kentucky Public Service Commission. However, this report is a matter of public record, and its distribution is not limited.

Division of Financial Analysis

June 4, 1996



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS
AND REGULATIONS BASED ON AN AUDIT OF BASIC FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS

To the Kentucky Public Service Commission

We have audited the financial statements of Caney Creek Water District as of and for the year ended December 31, 1994, and have issued our report thereon dated June 4, 1996.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to Caney Creek Water District is the responsibility of Caney Creek Water District's management. As part of obtaining reasonable assurance about whether the financial statements referred to in the first paragraph are free of material misstatement, we performed tests of the district's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

We noted certain immaterial instances of noncompliance that we have reported in a separate letter dated June 4, 1996.

This report is intended for the information of management and the Kentucky Public Service Commission. However, this report is a matter of public record and its distribution is not limited.

Division of Financial Analysis

June 4, 1996



COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

To the Kentucky Public Service Commission

In planning and performing our audit of the financial statements of Caney Creek Water District ("district") for the year ended December 31, 1994, we considered the district's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening financial reporting and improving compliance with statutes and regulations. This letter does not affect our report dated June 4, 1996, on the financial statements of Caney Creek Water District.

Accounting and Record Keeping Procedures

The district's accounting records and procedures are subject to the requirements established by the Uniform Systems of Accounts for Class C Water Districts and Associations and Sewer Utilities ("USoA"), as well as those prescribed by the Kentucky Public Service Commission ("Commission"). The following deviations from the USoA and prescribed practices and procedures were disclosed:

1. Plant Records. Plant records presently maintained by the utility are insufficient to easily determine the historical cost of utility property, plant, and equipment. It is imperative that the costs of plant assets be effectively controlled and accurately accounted for, because of the importance of these costs in determining periodic depreciation charges to be included when determining rates. We recommend that a subsidiary plant ledger be maintained with the accounting records to contain a card or sheet for each unit of property, showing details such as description, location, cost, vendor, date of purchase or installation, estimated salvage value, rate and method of depreciation, depreciation accumulated to date, and repairs. Supplementary information to the plant ledger would include documentation of periodic inventories and periodic appraisals of property, plant, and equipment for insurance purposes.

2. General Records. All records of the district from 1988-1992 could not be located. The district should exercise extreme care to ensure that all necessary records are properly maintained.

3. Accounts Receivable Records. On occasion, individual account receivable balances were removed from the billing register without proper accounting documentation. Uncollectible accounts should be expensed during the appropriate period with a corresponding charge to either an allowance account or directly to the receivable account provided that the direct write-off method does not materially differ from the allowance method.

4. Utility Tax. The district is required to bill and remit to the Knott County Board of Education ("KCBE") a three percent tax on water sales. The district appropriately bills the tax on water sales but incorrectly calculates the amount due to KCBE by including sewer receipts as a taxable item on the monthly tax return. The district should correct this error by properly completing the monthly tax returns and contact KCBE regarding the issue to determine whether a credit for past overpayments could be granted.

5. Records. In some instances, invoices for expenses were not available for review and not all invoices noted payment by indicating the check date and number used to make payment. The district should exercise care to retain all evidence of cash disbursements and note payment by writing the check date and number on the invoice.

6. Billing Adjustments. Due to malfunctioning meters and inaccurate meter reading, audit year billings were adjusted by approximately 10%. The district should repair or replace any malfunctioning meters at the time of discovery. The district should also exercise more care when reading meters so that accurate readings will be taken.

7. Delinquent Accounts. Delinquent accounts receivable have been allowed to accumulate to over one thousand dollars before service is disconnected. Over the years this has cost the district thousands of dollars. The district should revise its tariff filed with the Commission to include a shut off policy for nonpayment and strictly adhere to it. The district should refer to Kentucky Administrative Regulation Title 807, Chapter 5:006, General Rules, Section 14 for guidance when establishing this policy.

Laws and Rules

The district's accounting records and procedures are subject to laws as provided by the Kentucky Revised Statutes, to rules as established by the Kentucky Administrative Regulations, and to the Federal Internal Revenue Code. The audit disclosed deviations from laws and rules as follows:

1. Monitoring Usage. A utility is required by Kentucky Administrative Regulation Title 807, Chapter 5:006, General Rules, Section 10 (3) to monitor customers' usage annually according to

procedures which shall be included in its tariff. The district should update its tariff to include a description of the procedures it uses to monitor customer usage.

2. Furnishing of Rates. The district has failed to provide its rate schedule to its customers once a year as required by Kentucky Administrative Regulation Title 807, Chapter 5:006, General Rules, Section 6. This Regulation requires that a rate schedule be furnished to all customers once a year by one of the following methods:

- a) Printing the rate schedule on the bill.
- b) Publishing the rate schedule in the newspaper of general circulation once each year or when the rate is changed.
- c) Mailing the rate schedule to each customer once each year or when the rate is changed.
- d) Providing a place on each bill where the customer may indicate his desire to receive a copy of the schedule.

3. Election of Officers. Kentucky Revised Statute 74.020 (5) and 74.050 requires the water district commissioners to elect from its board a chairman, a secretary, and a treasurer and authorizes only the treasurer, who is to be paid not more than \$200 per year, to disburse funds of the water district only after obtaining warrants issued by the chairman and the secretary. 74.020 also requires each commissioner to execute a bond, approved by the county judge, conditioned on the faithful performance of the duties of his position. The district has designated Mr. Byron Jacobs as Treasurer, who is not a Commissioner and who is paid \$1,500 per year, to disburse funds. The district has not designated a secretary to warrant payments along with the Chairman. The Commissioners have not executed a bond approved by the county judge. The district is advised to comply with these regulations.

4. Estimated Billings. Kentucky Administrative Regulation Title 807, Chapter 5:006, General Rules, Section 6, requires that estimated or calculated bills be distinctly marked as such. The district's billing card does not contain this information. The district is advised to comply with these regulations.

Tariff and Rates Charged

The district has a tariff currently on file with the Commission. The following inconsistencies were noted with regard to the filed tariff and the district's actual practices.

1. Tariffed Rates and Conditions of Service. Kentucky Revised Statute 278.160 states that no utility shall charge, demand, collect or receive from any person a greater or less compensation for any service rendered or to be rendered than that prescribed in its filed schedules. During the audit year the

district charged the following rates which are not a part of its filed rates and charges:

Reconnection fee	\$ 8.00
Customer deposit	30.00
Water and sewer flat rate	12.80
Sewer flat rate	10.25

Flat rate revenues billed for 1994 totaled \$1,533.85. The district is advised to cease collecting any unauthorized rate or charge and initiate a proceeding before the PSC requesting approval of those rates.

2. Rate for sewer service. The district's water tariff states that the sewage rates are 60% of the water bill while the district actually charges the rates listed in its sewer tariff. The rates included in the sewer tariff were approved by the Commission in Case No. 9611, the district's most recent rate case. The district should revise its water tariff and eliminate the reference to the sewage rate being based on the water bill.

3. Customer Deposit Policy. Kentucky Administrative Regulation Title 807, Chapter 5:006, General Rules, Section 7, Deposits (7), requires that each utility which chooses to require deposits shall establish and include in its filed tariff the deposit policy to be utilized. The district is advised to establish a customer deposit policy to be included in its filed tariff that meets the requirements established by the Kentucky Administrative Regulations and pay interest on deposits in accordance with Kentucky Revised Statute 278.460.

Other

The district was advised by the commission in case number 9611 to initiate rate proceedings for each division of operations 12 months after certain system improvements were completed so that the cost of operating the improved system could be fully reflected in rates. The district did not file those rate applications.

This report is intended solely for the information and use of the Kentucky Public Service Commission and the management of Caney Creek Water District.

Division of Financial Analysis

June 4, 1996

CANNEY CREEK WATER DISTRICT
AUDIT ADJUSTMENTS
December 31, 1994

<u>Account Number</u>	<u>Account</u>	<u>Debit</u>	<u>Credit</u>
	(1)		
224	Long-Term Debt	\$ 4,833.62	
242	Miscellaneous Current and Accrued Liabilities		\$ 4,833.62
	To record current portion of Long-Term Debt at 12/31/94		
	(2)		
101	Utility Plant in Service	1,030.00	
105	Construction Work in Progress	3,304.63	
630	Contractual Services		563.00
620	Materials and Supplies		3,771.63
	To capitalize items expensed in 1994		
	(3)		
224	Long-Term Debt	3,087.82	
427	Interest Expense		3,087.82
	To adjust to actual		
	(4)		
670	Bad Debt Expense	1,075.63	
675	Miscellaneous Expense	910.22	
904	Uncollectible Accounts	579.19	
930	Miscellaneous General Expenses	490.12	
141/142	Accounts Receivable		2,968.21
143/144	Allowance for Doubtful Accounts		86.95
	To adjust to actual		
	(5)		
215	Retained Earnings	1,312.33	
143/144	Allowance for Doubtful Accounts		1,312.33
	To adjust 12/31/93 balance to actual		

CANEE CREEK WATER DISTRICT
AUDIT ADJUSTMENTS
December 31, 1994

<u>Account Number</u>	<u>Account</u>	<u>Debit</u>	<u>Credit</u>
	(6)		
215	Retained Earnings	\$ 935.00	
108/110	Accumulated Depreciation		\$ 935.00
	To adjust 12/31/93 balance to actual		
	(7)		
403	Depreciation Expense	120.17	
108/110	Accumulated Depreciation		120.17
	To correct 1994 depreciation expense		
	(8)		
650/929	Transportation Expense	115.08	
231/232	Accounts Payable		115.08
	To accrue payable at 12/31/94		

CANEY CREEK WATER DISTRICT
AUDIT RECLASSIFICATIONS
December 31, 1994

<u>Description</u>	<u>Amount</u>	<u>Proper Account</u>	<u>Account Charged</u>
Reverse Book Entry	132.83	408-Taxes Other Than Income	601-Salaries and Wages-Employees 701-Labor and Expenses
Utility Tax	722.47	426-Miscellaneous Income / (Deduction)	930-Miscellaneous Expense
Unmetered Water Revenues	159.42	460-Unmetered Water Revenue	474-Other Water Revenue 521-Flat Rate Revenue-General Customers 522-Measured Revenue-General Customers 532-Customer Forfeited Discounts 675/930-Miscellaneous Expense
Metered Water Revenues	3,437.63	461-Metered Water Revenue	474-Other Water Revenue 521-Flat Rate Revenue-General Customers 522-Measured Revenue-General Customers 532-Customer Forfeited Discounts 675/930-Miscellaneous Expense
Salary	408.84	601-Salaries and Wages-Employees	675-Miscellaneous Expense
Allowance for Health Insurance	105.70	604-Employee Pensions and Benefits	408-Taxes Other Than Income
Postage and Office Supplies	463.37	620-Materials and Supplies	675-Miscellaneous Expense
Reverse Book Entry	451.22	620-Materials and Supplies	601-Salaries and Wages-Employees 701-Labor and Expenses
Testing	2,499.75	630-Contractual Services	675-Miscellaneous Expense 618/704-Chemicals
Meter Repair	105.00	630-Contractual Services	620-Materials and Supplies
Mileage	791.76	650-Transportation Expense	675-Miscellaneous Expense

CANEY CREEK WATER DISTRICT
AUDIT RECLASSIFICATIONS
December 31, 1994

<u>Description</u>	<u>Amount</u>	<u>Proper Account</u>	<u>Account Charged</u>
Testing, Uniforms	1,770.71	701-Labor and Expenses	704-Chemicals 710-Supervision and Engineering 923-Outside Services Employed
Salary	99.87	701-Labor and Expenses	929-Transportation Expense
Allocation of Salary	1,491.32	710-Supervision and Engineering	701-Labor and Expenses
Salary	50.81	710-Supervision and Engineering	929-Transportation Expense
Work Performed on Mains	31.37	712-Maintenance of Collection System Sewer	923-Outside Services Employed
Meter repairs and Miscellaneous Repair Items	211.77	715-Maintenance of Other Treatment Plant	714-Maintenance of Treat- ment and Disposal Plant 921-Office Supplies and Other Expenses 923-Outside Services Employed
Meter Repair	104.42	715-Maintenance of Other Plant Facilities	620-Materials and Supplies
Allocation of Salary	720.07	902-Meter Reading Expenses and Flat Rate Inspection	701-Labor and Expenses
Salary	24.53	902-Meter Reading Expenses and Flat Rate Inspection	929-Transportation Expense
Allocation of Accounting Fees	1,616.40	923-Outside Services Employed	630-Contractual Services
Allowance for Health Insurance	27.14	926-Employee Pensions and Benefits	408-Taxes Other Than Income
Mileage	20.88	929-Transportation Expense	675-Miscellaneous Expense

APPENDIX B
AN APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION
IN CASE NO. 97-287 DATED 6/30/97
CANEY CREEK WATER DISTRICT
Box 86
Pippa Passes, KY 41844

July 3, 1996

Kentucky Public Service Commission
Division of Financial Analysis
730 Schenkel Lane
Frankfort, KY 40602

RECEIVED
JUL 8 - 1996
Division of Financial Analysis

To whom it may concern,

Following are our responses to your recent financial audit.

1. Plant Records. Plant records presently maintained by the utility are insufficient to easily determine the historical cost of utility property, plant, and equipment. It is imperative that the costs of plant assets be effectively controlled and accurately accounted for, because of the importance of these costs in determining periodic depreciation charges to be included when determining rates. We recommend that a subsidiary plant ledger be maintained with the accounting records to contain a card or sheet for each unit of property, showing details such as description, location, cost, vendor, date of purchase or installation, estimated salvage value, rate and method of depreciation, depreciation accumulated to date, and repairs. Supplementary information to the plant ledger would include documentation of periodic inventories and periodic appraisals of property, plant, and equipment for insurance purposes.

RESPONSE:

Plant Records - A detailed subsidiary ledger will be maintained. At the end of each accounting period the person in charge of the depreciation schedule (presently Darrell Madden) will set down with the general manager (presently Delmar Slone) to discuss and document plant additions and deletions. A card system as outlined in your compliance letter will be maintained for all new fixed assets. Annual appraisals will be conducted at year end of fixed assets and inventory to determine insurance needs.

2. General Records. All records of the district from 1988 - 1992 could not be located. The district should exercise extreme care to ensure that all necessary records are properly maintained.

RESPONSE:

General Records - All accounting records for each calendar year will be placed in the hands and files of the Chairman (currently Gary Perry) by the last day of the fifth month (May 31) of the following year. This will allow for all records to be maintained at one centralized location. The files from 1988 - 1992 have been located at Darrell Madden's former office in Martin, Kentucky. I have asked Darrell to get those records for me. We will place those records with all other accounting records referenced above in an office located on the campus of Alice Lloyd College with that location known to the plant operator, district commissioners, and those that handle our accounting (presently Darrell Madden).

CANEY CREEK WATER DISTRICT

Box 86

Pippa Passes, KY 41844

3. Accounts Receivable Records. On occasion, individual account receivable balances were removed from the billing register without proper accounting documentation. Uncollectible accounts should be expensed during the appropriate period with a corresponding charge to either an allowance account or directly to the receivable account provided that the direct write-off method does not materially differ from the allowance method.

RESPONSE:

Accounts Receivable Records - The allowance method will be in place as of 12/31/96 and effective immediately, no bills will be adjusted without the approval of the Chairman of the Board (currently Gary Perry). This will be initiated by a request form sent from the person in charge of billing (currently Darrell Madden). This form will set forth a detailed explanation as to why a bill needs adjusted and a request for the Chairman's signature. A new computer program is being written that will present an aging of accounts receivable.

4. Utility Tax. The district is required to bill and remit to the Knott County Board of Education ("KCBE") a three percent tax on water sales. The district appropriately bills the tax on water sales but incorrectly calculates the amount due to KCBE by including sewer receipts as a taxable item on the monthly tax return. The district should correct this error by properly completing the monthly tax returns and contact KCBE regarding the issue to determine whether a credit for past overpayments could be granted.

RESPONSE:

Utility Tax - This has already been solved and the Board of Education has given us credit for overpayment. A new computer program is being written that will break this out.

5. Records. In some instances, invoices for expenses were not available for review and not all invoices noted payment by indicating the check date and number used to make the payment. The district should exercise care to retain all evidence of cash disbursements and note payment by writing the check date and number on the invoice.

RESPONSE:

Records - The Water District will exercise care to retain all evidence of cash disbursements and note payments by writing the check date and number on the invoice. Byron Jacobs who currently writes the checks has been notified of this.

6. Billing Adjustments. Due to malfunctioning meters and inaccurate meter reading, audit year billings were adjusted by approximately 10%. The district should repair or replace any malfunctioning meters at the time of discovery. The district should also exercise more care when reading meters so that accurate readings will be taken.

RESPONSE:

Billing Adjustments - See number 3 previously addressed. The general manager has been made aware to exercise caution when reading meters. I have asked the plant operator to

CANEY CREEK WATER DISTRICT

Box 86

Pippa Passes, KY 41844

calculate all water usages and recheck any that are questionable before he turns in the meter readings for each month. We recently bought a meter reader viewing tube with a magnifier that should make meter readings easier to take. We are initiating a system of numbering each meter location and changing our billing accounts to include that location number. This will help to provide a usage history at each meter location as rental customers come and go. Two large meters were recently repaired or checked (the master meter and the meter at Lilly dorm on the Alice Lloyd College campus).

7. Delinquent Accounts. Delinquent accounts receivable have been allowed to accumulate to over one thousand dollars before service is disconnected. Over the years this has cost the district thousands of dollars. The district should revise its tariff filed with the Commission to include a shut off policy for nonpayment and strictly adhere to it. The district should refer to Kentucky Administrative Regulation Title 807, Chapter 5:006, General Rules, Section 14 for guidance when establishing this policy.

RESPONSE:

Delinquent Records - The District is in the process of revising its tariff to include a shut off policy for nonpayments. This will be strictly adhered to.

Laws and Rules

The district's accounting records and procedures are subject to laws as provided by the Kentucky Revised Statutes, to rules as established by the Kentucky Administrative Regulations, and to the Federal Internal Revenue Code. The audit disclosed deviations from laws and rules as follows:

1. Monitoring Usage. A utility is required by Kentucky Administrative Regulation title 807, Chapter 5:006, General rules, Section 10 (3) to monitor customers' usage annually according to procedures which shall be included in its tariff. The district should update its tariff to include a description of the procedures it uses to monitor customer usage.

RESPONSE:

The district's usage monitoring presently includes posting those usages to a computer spreadsheet for comparison on a historical basis. These procedures will be clarified as to their correctness and included in our request for tariff changes if correct or amended as required and included in our request for tariff changes.

2. Furnishing of Rates. The district has failed to provide its rate schedule to its customers once a year as required by Kentucky Administrative Regulation Title 807, Chapter 5:006, General Rules, Section 6. This Regulation requires that a rate schedule be furnished to all customers once a year by one of the following methods:

- a) Printing the rate schedule on the bill

CANEY CREEK WATER DISTRICT

Box 86

Pippa Passes, KY 41844

- b) Publishing the rate schedule in the newspaper of general circulation once each year or when the rate is changed.
- c) Mailing the rate schedule to each customer once each year or when the rate is changed.
- d) Providing a place on each bill where the customer may indicate his desire to receive a copy of the schedule.

RESPONSE:

The district will print the rates on the back of the billing for each customer during each December. We will ask that this procedure be included in a revised tariff.

3. Election of Officers. Kentucky Revised Statute 74.020 (5) and 74.050 requires the water district commissioners to elect from its board a chairman, a secretary, and a treasurer and authorizes only the treasurer, who is to be paid not more than \$200 per year, to disburse funds of the water district only after obtaining warrants issued by the chairman and the secretary. 74.020 also requires each commissioner to execute a bond, approved by the county judge, conditioned on the faithful performance of the duties of his position. The district has designated Mr. Byron Jacobs as Treasurer, who is not a Commissioner and who is paid \$1,500 per year, to disburse funds. The district has not designated a secretary to warrant payments along with the Chairman. The Commissioners have not executed a bond approved by the county judge. The district is advised to comply with these regulations.

RESPONSE:

We currently carry a bond with Travelers Insurance, policy no. I-660-262E2622-COF-95. This coverage is listed as "EMPLOYEE DISHONESTY COVERAGE FORM-A-BLANKET" and its declaration period is from 12-21-95 until 12-21-96.

At the next commissioners meeting, which will be held in July, we will elect a treasurer and secretary.

Tariff and Rates Charged

The district has a tariff currently on file with the Commission. The following inconsistencies were noted with regard to the filed tariff and the district's actual practices.

1. Tariffed Rates and Conditions of Service. Kentucky Revised Statute 278.160 states that no utility shall charge, demand, collect, or receive from any person a greater or less compensation for any service rendered or to be rendered than that prescribed in its filed schedules. During the audit year the district charged the following rates which are not a part of its filed rates and charges:

Reconnection fee	\$ 8.00
Customer deposit	30.00
Water and sewer flat rate	12.80

CANEY CREEK WATER DISTRICT

Box 86

Pippa Passes, KY 41844

Sewer flat rate

10.25

Flat rate revenues billed for 1994 totaled \$1,533.85. The district is advised to cease collecting any unauthorized rate or charge and initiate a proceeding before the PSC requesting approval of those rates.

RESPONSE:

We will file for a revision to our tariff that corrects the noted discrepancies.

2. Rate for sewer service. The district's water tariff states that the sewage rates are 60% of the water bill while the district actually charges the rates listed in its sewer tariff. The rates included in the sewer tariff were approved by the Commission in Case No. 9611, the district's most recent rate case. The district should revise its water tariff and eliminate the reference to the sewage rate being based on the water bill.

RESPONSE:

We will remove the reference to the sewer rate from the water tariff request that we will be making.

3. Customer Deposit Policy. Kentucky Administrative Regulation Title 807, Chapter 5:006, General Rules, Section 7, Deposits (7), requires that each utility which chooses to require deposits shall establish and include in its filed tariff the deposit policy to be utilized. The district is advised to establish a customer deposit policy to be included in its filed tariff that meets the requirements established by the Kentucky Administrative Regulations and pay interest on deposits in accordance with Kentucky Revised Statute 278.460.

RESPONSE: *We will request a summary of the existing tariffs, rules and regulations which the Public Service Commission has on record. Our request for a change in tariff will include the customer deposit policy.*

Other

The district was ordered by the commission in case number 9611 to initiate rate proceedings for each division of operations 12 months after certain system improvements were completed so that the cost of operating the improved system could be fully reflected in rates. The district did not file those rate applications.

RESPONSE:

A copy of a "form for filing Rate Schedules" in our files has the notation "submitted 9/1/87". Case number 9611 references 1986, specifically 10/06/86. I will check to see that all necessary changes to our tariff request are made and approved.

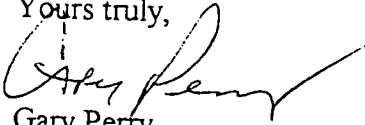
CANEY CREEK WATER DISTRICT

Box 86

Pippa Passes, KY 41844

If you have further questions or clarification or need to followup I can be reached at
606-369-3101, ext. 5101

Yours truly,

A handwritten signature in dark ink, appearing to read "Gary Perry", with a long, sweeping horizontal stroke extending to the right.

Gary Perry
Chairman, Board of Commissioners